

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 5739

DEPARTMENT OF CORRECTIONS

Agency No. 310

July 1, 1995 Through June 30, 1996

Issue Date: January 24, 1997

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DEPARTMENT OF CORRECTIONS
Agency No. 310
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Overview

We performed the statewide single audit of the state of Washington for the fiscal year ended June 30, 1996. In accordance with the Single Audit Act of 1984, we audited the state as an entity, rather than each agency separately. The results of this audit will be published in a statewide single audit report which includes the following:

- An opinion on the financial statements.
- A report on internal control structure-related matters based solely on an assessment of control risk made as part of the audit of the financial statements.
- A report on compliance with laws and regulations that may have a material effect on the financial statements.
- An opinion on supplementary Schedule of Federal Financial Assistance.
- A report on internal controls over federal financial assistance.
- An opinion on compliance with specific requirements applicable to major federal financial assistance programs.
- A report on compliance with general requirements applicable to federal financial assistance programs.
- A report on compliance with laws and regulations applicable to nonmajor federal financial assistance program transactions tested.
- A Schedule of Findings and Schedule of Questioned Costs.

The work performed at the Department of Corrections included procedures to satisfy the requirements of the 1996 statewide single audit and supplemental reviews and tests deemed necessary in the circumstances.

There was a finding, which is listed in the Schedule of Findings following this Overview, for the Department of Corrections.

Brian Sonntag
State Auditor

December 13, 1996

DEPARTMENT OF CORRECTIONS
Agency No. 310
July 1, 1995 Through June 30, 1996

Schedule Of Findings

1. The Department Of Corrections' Division Of Correctional Industries (CI) Should Comply With OFM Regulations For Accounts Receivable

During our review of CI's accounts receivables system, we noted the following instances of noncompliance.

- a. CI has not taken adequate steps to collect past due receivables.
- b. CI does not reconcile its subsidiary system to control accounts maintained in the state's Agency Financial Reporting System (AFRS), used for financial reporting, on a monthly basis.
- c. CI has not established procedures to properly account for receivables determined to be uncollectible.

The state of Washington Office of Financial Management *Policies, Regulations, and Procedures* manual, Section 2.2.4.3.3.b prescribes the following:

Written procedures are to be developed and followed to ensure that past due receivables are followed up promptly and in a manner that is cost-effective for the overall collection program.

Section 2.2.4.3.3.e states:

Agencies are to document all efforts made toward the collection of receivables.

Section 2.2.4.3.6.b states:

Subsidiary ledgers are to be balanced against the associated general ledger control accounts at least monthly.

Section 2.2.4.3.c. states:

Generally Accepted Accounting Principles require that a determination be made between receivables deemed to be collectible and those considered not economically collectible, including those not collectible at all. Agencies are to develop, and follow, written criteria for the determination of uncollectibility. Receivables determined to be uncollectible are to be written off promptly against the appropriate allowance account (GL Code Series 134X).

The lack of collection efforts has resulted in an increase of past due receivables to total receivables in fiscal year 1996, can adversely impact CI's cash flow, and could result in lost revenue. Failure to reconcile subsidiary records to control accounts on a monthly basis increases the likelihood that errors will occur and not be detected. Not accounting properly for uncollectible receivables could result in an overstatement of accounts receivable.

CI has stated that staffing shortages and systems weaknesses within its accounts receivable system have created these problems. CI is currently implementing a new receivables system and hopes to resolve these issues before the end of the next audit period.

We recommend that CI implement procedures to ensure compliance with OFM regulations.

Auditee's Response

The Department of Corrections concurs with the finding.

- a. *CI recognized the need to reduce its past due accounts receivables and a full-time permanent collections person was hired prior to the State Audit in November 1996. In addition, another person was hired on a temporary basis in January 1997 to assist in resolving past due accounts.*
- b. *CI reconciles to the internal control account monthly and the subsidiary systems to AFRS on an annual basis. As of January 1997, CI has implemented a new accounting system and a monthly reconciliation of subsidiary systems to control accounts maintained in AFRS.*
- c. *In August 1996, CI established a provision for doubtful accounts in the Aged Accounts Receivable Analysis. The amounts included in this provision reduced the outstanding accounts receivable balance. Documented procedures to ensure proper accounting for doubtful accounts are being established.*

Auditor's Concluding Remarks

We appreciate the corrective actions taken by the Department of Corrections and will review the results during our next audit.